



WENDY L. WATANABE  
AUDITOR-CONTROLLER

## COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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March 27, 2014

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

*John Naimo FOR*

SUBJECT: **FIRST QUARTERLY REPORT ON IMPACT OF HEALTH CARE  
REFORM ON COUNTY CASH FLOWS  
(Board Agenda Item 36-A, June 25, 2013)**

On June 25, 2013, your Board instructed the Auditor-Controller (A-C) to review and analyze the impact of health care reform on the County's cash flow and the Department of Health Services' (DHS) financial performance. Your Board also instructed the A-C to provide quarterly reports, starting this month.

We are working closely with the Chief Executive Office and DHS to review both ongoing and new DHS revenue sources. State Assembly Bill 85 (AB85), also referred to as realignment legislation, reduces the County's health realignment revenues in the current fiscal year by \$88 million. The State began monthly withholding of these funds in January 2014 and withholding will continue until the targeted amount of \$88 million is achieved by June 2014. The County's current cash flow projection assumes loss of these funds and such loss will not have an adverse impact on the County's overall cash flows, due to positive variances from non-DHS cash flow sources.

The amounts of new or increased DHS revenue sources expected to backfill the realignment revenue loss remain uncertain at this time. It is not likely that new or increased DHS cash receipts will materialize by June 30, 2014, to replace reduced cash flow from realignment. However, it is expected that additional accounts receivable will be owed to the County as a result of health care reform, in amounts which are not yet estimable.

On March 18, 2014, your Board approved the continuance of the DHS financial status update until July 1, 2014. In our next quarterly report, which will coincide with the next DHS update, we anticipate more certainty regarding the various DHS revenue sources and should be able to provide a more comprehensive report.

If you or your staff have any questions, please contact John Naimo at (213) 974-8484.

WLW:JN

c: William T Fujioka, Chief Executive Officer  
Sachi A. Hamai, Executive Officer, Board of Supervisors  
Mitchell H. Katz, M.D., Director, Department of Health Services  
Mark J. Saladino, Treasurer and Tax Collector  
Audit Committee  
Public Information Office